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SUBJECT: BRINGING TRANSPARENCY TO EURASIAN GAS TRANSIT

¶1. (SBU) Summary: The Eurasian gas transit sector is notoriously murky, with poorly-understood, Gazprom-owned and affiliated intermediaries managing operations, taking cuts, and complicating or preventing legal recourse during gas supply interruptions. For most countries in the region, bringing even a modicum of transparency to this sector has been an illusive goal. Bulgaria is about to try. Victim of the two week gas cut-off in January and tired of Gazprom-connected rent seekers dominating its gas industry, Bulgaria is working on a first-of-its kind gas transparency initiative through an innovative partnership with the World Bank and the Extractive Industries Transparency Initiative (EITI). The plan will use a simple, EITI-like template to record and reconcile payments and revenues related to gas import and transit. While Bulgaria's ulterior motive for the project is to eventually rid the country of entrenched gas intermediaries, positive side effects of the project will include new transparency in gas supply and transit contracts, understanding of the role of transit revenues in the state budget, and a new-found voice for civil society in this key sector. If successful, the World Bank believes the plan could be replicated throughout the region and anywhere else gas transit transparency needs a boost. End Summary.

¶2. (SBU) As in most countries in the region, Bulgaria's gas transit sector is notoriously opaque. It was only after Bulgaria fell victim to a two-week gas dispute between Russia and Ukraine in January that most Bulgarians -- high level officials and average citizens alike -- found out that the country had no direct gas supply or transit contracts (and therefore no recourse) with Gazprom, only with shady Gazprom-owned or connected intermediaries. Rebuffed by the Kremlin and Gazprom on compensation for the cut-off and so-far left empty handed in its attempt to eliminate two of three intermediaries in the market, the Bulgarian Energy Holding is looking for other avenues to bring greater transparency, certainty and security in the gas transit sector.

¶3. (SBU) It was against this backdrop that Embassy Sofia urged Bulgaria to open a dialog with EITI and other transparency organizations to develop an EITI-like model for the gas sector. Launched in 2002 as a sister-organization to Transparency International, EITI is a multi-stakeholder initiative that promotes transparency in the extractive (oil, gas, mining) sectors by publishing and verifying government revenues obtained through these industries. While the initiative is government-led, private sector and civil society play significant roles in the initiative's implementation. EITI has never before dealt with hydrocarbon transit, but the organization is interested in determining whether an EITI-like model could be useful for gas transit countries interested in bringing greater transparency to the sector.

¶4. (SBU) In late January, the EITI Head of Secretariat met with the CEOs of the Bulgarian Energy Holding and Bulgargaz and representatives of several local NGOs to determine if the idea was doable. He left enthusiastic. Since the EITI model is currently designed to apply only to the extractive industries, in mid-April EITI brought in the World Bank to conduct a scoping mission for this transit project. On April 24, the Chair of EITI and founder of Transparency International Peter Eigen announced the idea of this pilot project at a business forum connected to the Sofia Energy Summit. Next, the World Bank and the Bulgarian Energy Holding, with EITI mentoring and advice, will form a technical working group made up of relevant stakeholders, including the gas intermediaries (who will need to be convinced, cajoled and compelled) to design a simple, appropriate reporting template that will form the basis of the project. Once this is done, the plan can be put into action.

¶5. (SBU) Comment: The success of this first-of-its-kind initiative is not assured. Continued political will, intermediary cooperation, and EITI board of directors support to allow it to expand into new geographic and thematic territory are all necessary. But if the Bulgarian project succeeds, the impact would be dramatic and far-reaching. The World Bank believes the model could be applied to gas transit countries throughout the region and beyond. The Swedish Ambassador to Bulgaria is interested in promoting the idea during Sweden's "transparency-focused" EU Presidency. NGOs in Georgia, Ukraine, Kazakhstan and Azerbaijan, supported by Revenue Watch and the Open Society Foundation, have already called for the introduction of an EITI-like gas transparency model in those countries. Such initiatives are not magic

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bullets. But the very creation of a forum in which government, private sector and NGO players interested in the gas sector come together with a stated goal of greater transparency, is a step in the right direction.
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